

**Tennessee Board of Regents
Tennessee Technological University**

**For the Year Ended
June 30, 2001**

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

February 21, 2002

The Honorable Don Sundquist, Governor

and

Members of the General Assembly

State Capitol

Nashville, Tennessee 37243

and

The Honorable Charles W. Manning, Chancellor

Tennessee Board of Regents

1415 Murfreesboro Road, Suite 350

Nashville, Tennessee 37217

and

Dr. Robert R. Bell, President

Tennessee Technological University

Box 5007

Cookeville, Tennessee 38505

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Tennessee Technological University, for the year ended June 30, 2001. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/cj
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State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Tennessee Technological University
For the Year Ended June 30, 2001

AUDIT OBJECTIVES

The objectives of the audit were to consider the university's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

AUDIT FINDINGS

The audit report contains no findings.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

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**Audit Report
Tennessee Board of Regents
Tennessee Technological University
For the Year Ended June 30, 2001**

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**Tennessee Board of Regents
Tennessee Technological University
For the Year Ended June 30, 2001**

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Tennessee Technological University. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

Tennessee Technological University was established as Tennessee Polytechnic Institute on September 14, 1916, by the General Assembly. In 1927, the institution was raised to the status of a four-year college and empowered to grant the bachelor’s degree. The administrative structure of the university was expanded in 1949 into five schools: Arts and Sciences, Agriculture and Home Economics, Business Administration, Education, and Engineering. In 1965, the five undergraduate schools were designated as colleges. By an act of the General Assembly, effective July 1, 1965, the name of the institution was officially changed to Tennessee Technological University.

ORGANIZATION

The governance of Tennessee Technological University is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the university is the president, who is assisted and advised by members of the faculty and administrative staff.

AUDIT SCOPE

The audit was limited to the period July 1, 2000, through June 30, 2001, and was conducted in accordance with government auditing standards generally accepted in the United States of America. Financial statements are presented for the year ended June 30, 2001, and for comparative purposes, the year ended June 30, 2000. Tennessee Technological University is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the university's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, it included tests of compliance with applicable federal laws and regulations and consideration of internal control used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the university's financial statements for the year ended June 30, 2001, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by government auditing standards generally accepted in the United States of America. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the university's financial statements.



**STATE OF TENNESSEE
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**Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance With
*Government Auditing Standards***

November 8, 2001

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of Tennessee Technological University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the year ended June 30, 2001, and have issued our report thereon dated November 8, 2001. We conducted our audit in accordance with government auditing standards generally accepted in the United States of America. As discussed in Note 9, the university changed the threshold for capitalizing equipment. Also, as discussed in Note 15, the university implemented GASB 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

Compliance

As part of obtaining reasonable assurance about whether the university's financial statements are free of material misstatement, we performed tests of the university's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The Honorable John G. Morgan
November 8, 2001
Page Two

We did, however, note one less significant instance of noncompliance, which we have reported to the university's management in a separate letter.

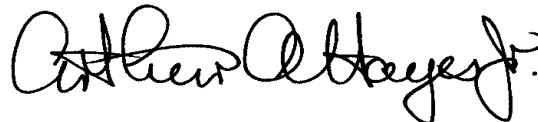
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the university's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted certain matters involving the internal control over financial reporting, which we have reported to the university's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur A. Hayes Jr.", with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA,
Director

AAH/cj



**STATE OF TENNESSEE
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Independent Auditor's Report

November 8, 2001

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying balance sheets of Tennessee Technological University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 2001, and June 30, 2000, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the years then ended. These financial statements are the responsibility of the university's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with government auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

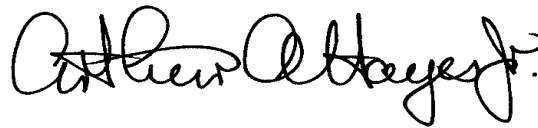
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Tennessee Technological University, as of June 30, 2001, and June 30, 2000, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Honorable John G. Morgan
November 8, 2001
Page Two

As discussed in Note 9, the university changed the threshold for capitalizing equipment. Also, as discussed in Note 15, the university implemented GASB 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2001, on our consideration of the university's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." in a cursive script.

Arthur A. Hayes, Jr., CPA,
Director

AAH/cj

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL UNIVERSITY
BALANCE SHEETS
JUNE 30, 2001, AND JUNE 30, 2000

	June 30, 2001	June 30, 2000		June 30, 2001	June 30, 2000
<u>ASSETS</u>			<u>LIABILITIES AND FUND BALANCES</u>		
Current funds:			Current funds:		
Unrestricted:			Unrestricted:		
General:			General:		
Cash and cash equivalents (Notes 2 and 3)	\$ 2,602,200.96	\$ 1,462,274.44	Liabilities:		
Investments (Note 4)	5,496,588.41	6,466,140.43	Accounts payable	\$ 895,247.99	\$ 1,776,359.96
Accrued interest receivable	31,486.62	38,324.13	Accrued liabilities	1,811,612.42	1,726,476.37
Accounts receivable (net of allowance of \$99,093.46 at June 30, 2001, and \$107,938.46 at June 30, 2000)	327,855.74	287,702.16	Student deposits	14,611.10	6,166.05
Inventories	295,462.52	293,413.49	Deferred revenue	2,882,349.05	2,330,637.69
Due from restricted current funds	172,000.00	300,000.00	Compensated absences	2,078,192.13	1,951,263.25
Prepaid expenses	122,751.87	137,860.96	Other liabilities	13,321.21	16,811.17
			Total liabilities	7,695,333.90	7,807,714.49
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital	358,295.47	357,009.59
			Allocation for encumbrances	317,627.23	382,183.39
			Allocation for designated appropriations	63,048.18	57,502.98
			Allocation for designated fees	1,180,867.20	813,338.80
			Discretionary allocation:		
			Allocation for subsequent budget	1,500,000.00	1,500,000.00
			Allocation for compensated absences	(2,078,192.13)	(1,951,263.25)
			Unallocated	11,366.27	19,229.61
			Total fund balances	1,353,012.22	1,178,001.12
Total general	9,048,346.12	8,985,715.61	Total general	9,048,346.12	8,985,715.61
Auxiliary enterprises:			Auxiliary enterprises:		
Cash and cash equivalents (Notes 2 and 3)	900,622.04	917,890.42	Liabilities:		
Accounts receivable (net of allowance of \$19,643.30 at June 30, 2001, and \$23,703.04 at June 30, 2000)	98,108.46	71,727.72	Accounts payable	2,794.78	3,027.87
Inventories	73,578.60	72,310.05	Student deposits	107,427.00	99,331.00
			Deferred revenue	121,343.44	122,735.25
			Compensated absences	191,971.87	188,062.06
			Total liabilities	423,537.09	413,156.18
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital	167,394.38	137,592.83
			Allocation for encumbrances	10,193.36	1,430.04
			Discretionary allocation:		
			Allocation for contingency	451,629.00	448,112.00
			Allocation for compensated absences	(191,971.87)	(188,062.06)
			Unallocated	211,527.14	249,699.20
			Total fund balances	648,772.01	648,772.01
Total auxiliary enterprises	1,072,309.10	1,061,928.19	Total auxiliary enterprises	1,072,309.10	1,061,928.19
Total unrestricted	10,120,655.22	10,047,643.80	Total unrestricted	10,120,655.22	10,047,643.80
Restricted:			Restricted:		
Cash and cash equivalents (Notes 2 and 3)	1,376.42	769.97	Liabilities:		
Accounts and grants receivable (net of allowance of \$813.50 at June 30, 2001, and \$651.30 at June 30, 2000)	2,204,379.51	2,074,566.35	Accounts payable	3,348.66	2,390.61
			Compensated absences	172,136.92	139,596.97
			Due to unrestricted current funds	172,000.00	300,000.00
			Total liabilities	347,485.58	441,987.58
			Fund balance	1,858,270.35	1,633,348.74
Total restricted	2,205,755.93	2,075,336.32	Total restricted	2,205,755.93	2,075,336.32
Total current funds	\$ 12,326,411.15	\$ 12,122,980.12	Total current funds	\$ 12,326,411.15	\$ 12,122,980.12
Loan funds:			Loan funds:		
Cash and cash equivalents (Notes 2 and 3)	\$ 816,292.41	\$ 878,905.25	Fund balances:		
Notes receivable (net of allowance of \$142,006.43 at June 30, 2001, and \$197,316.34 at June 30, 2000)	2,697,338.05	2,481,772.06	U.S. government grants refundable	\$ 2,824,415.22	\$ 2,713,214.86
Accrued interest receivable (net of allowance of \$13,519.65 at June 30, 2001, and \$13,570.69 at June 30, 2000)	26,419.89	31,201.16	University funds:		
			Restricted - matching	369,474.81	333,287.34
			Restricted - other	346,160.32	345,376.27
Total loan funds	\$ 3,540,050.35	\$ 3,391,878.47	Total loan funds	\$ 3,540,050.35	\$ 3,391,878.47

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL UNIVERSITY
BALANCE SHEETS
JUNE 30, 2001, AND JUNE 30, 2000

	June 30, 2001	June 30, 2000		June 30, 2001	June 30, 2000
<u>ASSETS</u>			<u>LIABILITIES AND FUND BALANCES</u>		
Endowment and similar funds:			Endowment and similar funds:		
Cash and cash equivalents (Notes 2 and 3)	\$ 689,244.28	\$ 751,421.67	Fund balances:		
Investments (Note 4)	699,941.00	814,153.83	Endowment	\$ 753,223.48	\$ 775,481.38
Accrued interest receivable	<u>3,739.70</u>	<u>4,596.77</u>	Term endowment	5,088.10	33,285.35
			Quasi-endowment:		
			Restricted	33,566.46	33,566.46
			Unrestricted	<u>601,046.94</u>	<u>727,839.08</u>
Total endowment and similar funds	\$ <u>1,392,924.98</u>	\$ <u>1,570,172.27</u>	Total endowment and similar funds	\$ <u>1,392,924.98</u>	\$ <u>1,570,172.27</u>
Plant funds:			Plant funds:		
Unexpended plant:			Unexpended plant:		
Cash and cash equivalents (Notes 2 and 3)	\$ 818,536.04	\$ 470,928.30	Liabilities:		
LGIP deposit - capital projects	-	15,044.75	Accounts payable	\$ -	\$ 139.46
Accounts receivable	<u>-</u>	<u>741.58</u>			
			Fund balance:		
			Unrestricted (Note 5)	818,536.04	486,575.17
Total unexpended plant	<u>818,536.04</u>	<u>486,714.63</u>	Total unexpended plant	<u>818,536.04</u>	<u>486,714.63</u>
Renewals and replacements:			Renewals and replacements:		
Cash and cash equivalents (Notes 2 and 3)	4,322,119.64	4,827,859.49	Liabilities:		
Accounts receivable	<u>-</u>	<u>23.40</u>	Accounts payable	-	1,666.97
			Fund balance:		
			Unrestricted (Note 5)	4,322,119.64	4,826,215.92
Total renewals and replacements	<u>4,322,119.64</u>	<u>4,827,882.89</u>	Total renewals and replacements	<u>4,322,119.64</u>	<u>4,827,882.89</u>
Retirement of indebtedness:			Retirement of indebtedness:		
Cash and cash equivalents (Notes 2 and 3)	1,239,788.65	1,105,755.45	Liabilities:		
Investments with trustees - TTUDC (Note 4)	532,687.84	524,075.24	Accrued interest payable	30,132.74	35,565.00
Accrued interest receivable	2,392.29	1,420.41	Accrued liabilities	<u>2,290.63</u>	<u>-</u>
Accounts receivable	<u>-</u>	<u>17,293.00</u>			
			Total liabilities	<u>32,423.37</u>	<u>35,565.00</u>
			Fund balances:		
			Restricted	494,894.26	507,223.65
			Unrestricted	<u>1,247,551.15</u>	<u>1,105,755.45</u>
			Total fund balances	<u>1,742,445.41</u>	<u>1,612,979.10</u>
Total retirement of indebtedness	<u>1,774,868.78</u>	<u>1,648,544.10</u>	Total retirement of indebtedness	<u>1,774,868.78</u>	<u>1,648,544.10</u>
Investment in plant:			Investment in plant:		
Land	1,002,868.94	1,002,868.94	Liabilities:		
Buildings	82,219,343.49	81,952,773.56	Accounts payable	590,250.69	256,445.58
Improvements other than buildings	5,948,900.42	5,899,606.42	Bonds payable (Note 6)	872,000.00	1,175,000.00
Equipment	16,154,454.01	16,815,376.37	Tennessee State School Bond Authority indebtedness (Note 6)	<u>2,841,863.20</u>	<u>3,327,536.20</u>
Livestock	112,902.80	116,266.00			
Library books	15,780,384.00	15,659,330.48	Total liabilities	<u>4,304,113.89</u>	<u>4,758,981.78</u>
Other library holdings	14,120,501.60	13,863,322.79			
Other assets	<u>436,370.45</u>	<u>436,370.45</u>	Fund balance:		
			Net investment in plant	131,471,611.82	130,986,933.23
Total investment in plant	<u>135,775,725.71</u>	<u>135,745,915.01</u>	Total investment in plant	<u>135,775,725.71</u>	<u>135,745,915.01</u>
Total plant funds	\$ <u>142,691,250.17</u>	\$ <u>142,709,056.63</u>	Total plant funds	\$ <u>142,691,250.17</u>	\$ <u>142,709,056.63</u>
Agency funds:			Agency funds:		
Nonfoundation funds:			Nonfoundation funds:		
Cash and cash equivalents (Notes 2 and 3)	\$ 148,817.86	\$ 155,975.26	Liabilities:		
Accounts receivable	<u>6,152.12</u>	<u>6,077.83</u>	Deposits held in custody for others	\$ 154,969.98	\$ 162,053.09
Total nonfoundation funds	<u>154,969.98</u>	<u>162,053.09</u>	Total nonfoundation funds	<u>154,969.98</u>	<u>162,053.09</u>
Foundation funds:			Foundation funds:		
Cash and cash equivalents (Notes 2 and 3)	9,281,901.89	3,813,941.61	Liabilities:		
LGIP deposit - capital projects	221,629.20	224,644.00	Deposits held in custody for foundations	<u>22,466,340.52</u>	<u>19,967,041.21</u>
Investments (Note 4)	12,622,403.37	15,547,892.13			
Accrued interest receivable	72,340.26	114,812.47			
Accounts and notes receivable	7,195.00	7,895.00			
Land	255,000.00	255,000.00			
Construction in progress	<u>5,870.80</u>	<u>2,856.00</u>			
Total foundation funds	<u>22,466,340.52</u>	<u>19,967,041.21</u>	Total foundation funds	<u>22,466,340.52</u>	<u>19,967,041.21</u>
Total agency funds	\$ <u>22,621,310.50</u>	\$ <u>20,129,094.30</u>	Total agency funds	\$ <u>22,621,310.50</u>	\$ <u>20,129,094.30</u>

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2001

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
REVENUES AND OTHER ADDITIONS								
Unrestricted current fund revenues	\$ 67,727,065.68	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	9,270,471.35	-	-	-	-	-	-	-
Tuition and fees	-	48,653.00	-	-	-	-	-	-
State appropriations	-	3,634,900.00	-	-	2,188,456.90	-	-	-
Federal grants and contracts	-	8,192,829.54	149,500.00	-	-	-	34,586.00	-
State grants and contracts	-	1,033,775.64	-	-	-	-	-	-
Private gifts, grants, and contracts	-	3,201,520.86	300.00	10,865.00	-	-	-	-
Endowment income	-	194,488.27	1,819.92	-	-	-	-	-
Investment income	-	-	42,653.78	56,763.83	-	-	51,243.44	-
Interest on loans receivable	-	-	47,614.62	-	-	-	-	-
Reduction in doubtful accounts	-	-	51,326.41	-	-	-	-	-
Equipment use charges	-	-	-	-	-	584,980.00	-	-
Net increase in the fair value of investments	-	-	-	37,792.21	-	-	-	-
Reduction in debt service reserve	-	-	-	-	-	-	10.00	-
Expended for plant facilities (including \$1,778,456.53 charged to current fund expenditures)	-	-	-	-	-	-	-	2,459,867.93
Retirement of indebtedness	-	-	-	-	-	-	-	788,683.00
Other	-	-	-	-	-	-	-	101,645.38
Total revenues and other additions	76,997,537.03	16,306,167.31	293,214.73	105,421.04	2,188,456.90	584,980.00	85,839.44	3,350,196.31
EXPENDITURES AND OTHER DEDUCTIONS								
Educational and general expenditures	67,875,292.52	15,529,447.38	-	-	-	-	-	-
Auxiliary enterprise expenditures	6,920,898.25	9,278.88	-	-	-	-	-	-
Indirect costs recovered	-	648,292.79	-	-	-	-	-	-
Reclassification to other funds	-	15,901.73	-	104,041.33	-	-	-	-
Loan cancellations and write-offs	-	-	155,542.81	-	-	-	-	-
Administrative and collection costs	-	-	66.31	-	-	-	14,068.51	-
Provision for doubtful accounts	-	-	21,491.73	-	-	-	-	-
Expended for plant facilities	-	-	-	-	209,072.33	472,339.07	-	-
Expended for noncapital items	-	-	-	-	2,119,898.16	1,132,004.77	-	-
Retirement of indebtedness	-	-	-	-	-	-	788,683.00	-
Interest on indebtedness	-	-	-	-	-	-	205,156.76	-
Disposal of plant facilities	-	-	-	-	-	-	-	1,935,049.01
Library holdings revaluation	-	-	-	-	-	-	-	582,990.40
Other	-	11,951.92	-	-	-	-	-	347,478.31
Total expenditures and other deductions	74,796,190.77	16,214,872.70	177,100.85	104,041.33	2,328,970.49	1,604,343.84	1,007,908.27	2,865,517.72

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2001

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
<u>TRANSFERS AMONG FUNDS - ADDITIONS</u>								
<u>(DEDUCTIONS)</u>								
Mandatory:								
Loan fund matching grant	(32,058.00)	-	32,058.00	-	-	-	-	-
Principal and interest	(916,038.57)	-	-	-	-	-	916,038.57	-
Nonmandatory:								
Unrestricted current funds	1,380,000.00	-	-	(45,000.00)	-	(1,335,000.00)	-	-
Restricted current funds	-	133,627.00	-	(133,627.00)	-	-	-	-
Unexpended plant	(487,000.00)	-	-	-	487,000.00	-	-	-
Renewals and replacements	(1,765,984.59)	-	-	-	(14,525.54)	1,850,267.56	(69,757.43)	-
Retirement of indebtedness	(205,254.00)	-	-	-	-	-	205,254.00	-
Total transfers	(2,026,335.16)	133,627.00	32,058.00	(178,627.00)	472,474.46	515,267.56	1,051,535.14	-
Net increases (decreases) for the year	175,011.10	224,921.61	148,171.88	(177,247.29)	331,960.87	(504,096.28)	129,466.31	484,678.59
Fund balances at beginning of year	1,826,773.13	1,633,348.74	3,391,878.47	1,570,172.27	486,575.17	4,826,215.92	1,612,979.10	130,986,933.23
Fund balances at end of year	\$ 2,001,784.23	\$ 1,858,270.35	\$ 3,540,050.35	\$ 1,392,924.98	\$ 818,536.04	\$ 4,322,119.64	\$ 1,742,445.41	\$ 131,471,611.82

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2000

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
REVENUES AND OTHER ADDITIONS								
Unrestricted current fund revenues	\$ 63,766,715.14	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	8,962,249.24	-	-	-	-	-	-	-
Tuition and fees	-	47,012.95	-	-	-	-	-	-
State appropriations	-	3,526,000.00	-	-	1,411,505.75	-	-	-
Federal grants and contracts	-	5,891,176.51	195,156.00	-	-	-	34,586.00	-
State grants and contracts	-	2,148,243.21	-	-	-	-	-	-
Local grants and contracts	-	1,206.94	-	-	-	-	-	-
Private gifts, grants, and contracts	-	2,817,531.77	310.00	11,835.00	-	-	-	-
Endowment income	-	233,106.90	2,091.52	-	-	-	-	-
Investment income	-	-	39,081.79	75,563.98	-	-	45,540.65	-
Interest on loans receivable	-	-	67,666.66	-	-	-	-	-
Reduction in doubtful accounts	-	-	572.00	-	-	-	-	-
Equipment use charges	-	-	-	-	-	631,290.00	-	-
Reduction in debt service reserve	-	-	-	-	-	-	205,322.76	-
Expended for plant facilities (including \$2,896,789.30 charged to current fund expenditures)	-	-	-	-	-	-	-	4,818,736.79
Retirement of indebtedness	-	-	-	-	-	-	-	952,843.36
Library holdings revaluation	-	-	-	-	-	-	-	280,128.64
Other	-	-	-	-	-	-	-	119,745.70
Total revenues and other additions	<u>72,728,964.38</u>	<u>14,664,278.28</u>	<u>304,877.97</u>	<u>87,398.98</u>	<u>1,411,505.75</u>	<u>631,290.00</u>	<u>285,449.41</u>	<u>6,171,454.49</u>
EXPENDITURES AND OTHER DEDUCTIONS								
Educational and general expenditures	63,330,243.98	14,370,635.48	-	-	-	-	-	-
Auxiliary enterprise expenditures	6,663,785.91	302.74	-	-	-	-	-	-
Indirect costs recovered	-	631,725.51	-	-	-	-	-	-
Refunded to grantors	-	920.73	-	-	-	-	-	-
Reclassification to other funds	-	24,466.35	-	236,911.64	-	-	-	-
Loan cancellations and write-offs	-	-	35,143.85	-	-	-	-	-
Administrative and collection costs	-	-	34,083.62	-	-	-	20,496.18	-
Provision for doubtful accounts	-	-	55,371.67	-	-	-	-	-
Net decrease in the fair value of investments	-	-	-	276,836.56	-	-	-	-
Expended for plant facilities	-	-	-	-	438,155.60	1,483,791.89	-	-
Expended for noncapital items	-	-	-	-	1,786,643.83	883,747.07	-	-
Retirement of indebtedness	-	-	-	-	-	-	952,843.36	-
Interest on indebtedness	-	-	-	-	-	-	249,885.62	-
Disposal of plant facilities	-	-	-	-	-	-	-	2,441,720.24
Reduction in debt service reserve	-	-	-	-	-	-	-	205,322.76
Increase in indebtedness	-	-	-	-	-	-	-	2.02
Other	-	971.73	-	-	-	-	-	238,758.32
Total expenditures and other deductions	<u>69,994,029.89</u>	<u>15,029,022.54</u>	<u>124,599.14</u>	<u>513,748.20</u>	<u>2,224,799.43</u>	<u>2,367,538.96</u>	<u>1,223,225.16</u>	<u>2,885,803.34</u>

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2000

	Current Funds				Plant Funds			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
<u>TRANSFERS AMONG FUNDS - ADDITIONS</u>								
<u>(DEDUCTIONS)</u>								
Mandatory:								
Loan fund matching grant	(32,798.00)	-	32,798.00	-	-	-	-	-
Principal and interest	(965,873.53)	-	-	-	-	-	965,873.53	-
Nonmandatory:								
Unrestricted current funds	1,098,314.00	-	-	(283,314.00)	-	(815,000.00)	-	-
Restricted current funds	-	132,561.07	-	(132,561.07)	-	-	-	-
Endowment and similar funds	-	(13,215.80)	-	13,215.80	-	-	-	-
Unexpended plant	(309,940.00)	-	-	-	374,940.00	(65,000.00)	-	-
Renewals and replacements	(1,696,559.85)	-	-	-	(106,396.74)	2,005,887.92	(202,931.33)	-
Retirement of indebtedness	(156,870.35)	-	-	-	-	-	156,870.35	-
Total transfers	(2,063,727.73)	119,345.27	32,798.00	(402,659.27)	268,543.26	1,125,887.92	919,812.55	-
Net increases (decreases) for the year	671,206.76	(245,398.99)	213,076.83	(829,008.49)	(544,750.42)	(610,361.04)	(17,963.20)	3,285,651.15
Fund balances at beginning of year	1,155,566.37	1,878,747.73	3,178,801.64	2,399,180.76	1,031,325.59	5,436,576.96	1,630,942.30	143,246,728.94
Cummulative effect of a change in accounting principle (Note 9)	-	-	-	-	-	-	-	(15,545,446.86)
Fund balances at beginning of year, as restated	1,155,566.37	1,878,747.73	3,178,801.64	2,399,180.76	1,031,325.59	5,436,576.96	1,630,942.30	127,701,282.08
Fund balances at end of year	\$ 1,826,773.13	\$ 1,633,348.74	\$ 3,391,878.47	\$ 1,570,172.27	\$ 486,575.17	\$ 4,826,215.92	\$ 1,612,979.10	\$ 130,986,933.23

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 2001

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
<u>REVENUES</u>			
Tuition and fees	\$ 23,334,028.39	\$ 48,653.00	\$ 23,382,681.39
State appropriations	39,932,900.00	3,634,900.00	43,567,800.00
Federal grants and contracts	461,689.71	8,160,298.02	8,621,987.73
State grants and contracts	59,844.44	1,012,377.17	1,072,221.61
Private gifts, grants, and contracts	126,758.64	3,197,039.63	3,323,798.27
Investment income	1,193,510.77	-	1,193,510.77
Endowment income	-	194,488.27	194,488.27
Sales and services of educational activities	1,828,688.72	-	1,828,688.72
Sales and services of auxiliary enterprises	9,270,471.35	-	9,270,471.35
Other sources	789,645.01	-	789,645.01
Total current revenues	<u>76,997,537.03</u>	<u>16,247,756.09</u>	<u>93,245,293.12</u>
<u>EXPENDITURES AND TRANSFERS</u>			
Educational and general:			
Expenditures:			
Instruction	35,007,129.69	1,336,021.62	36,343,151.31
Research	627,310.96	7,163,881.93	7,791,192.89
Public service	1,270,911.64	1,687,026.83	2,957,938.47
Academic support	6,514,787.08	169,696.97	6,684,484.05
Student services	8,778,169.36	499,385.83	9,277,555.19
Institutional support	6,688,465.45	174,226.85	6,862,692.30
Operation and maintenance of plant	7,464,269.85	10,573.03	7,474,842.88
Scholarships and fellowships	1,524,248.49	4,488,634.32	6,012,882.81
Total educational and general expenditures	<u>67,875,292.52</u>	<u>15,529,447.38</u>	<u>83,404,739.90</u>
Mandatory transfers for:			
Loan fund matching grant	32,058.00	-	32,058.00
Principal and interest	322,501.00	-	322,501.00
Nonmandatory transfers for:			
Endowment and similar funds	(45,000.00)	-	(45,000.00)
Unexpended plant	487,000.00	-	487,000.00
Renewals and replacements	(1,325,050.94)	-	(1,325,050.94)
Retirement of indebtedness	205,254.00	-	205,254.00
Total educational and general	<u>67,552,054.58</u>	<u>15,529,447.38</u>	<u>83,081,501.96</u>
Auxiliary enterprises:			
Expenditures	6,920,898.25	9,278.88	6,930,177.13
Mandatory transfer for:			
Principal and interest	593,537.57	-	593,537.57
Nonmandatory transfer for:			
Renewals and replacements	1,756,035.53	-	1,756,035.53
Total auxiliary enterprises	<u>9,270,471.35</u>	<u>9,278.88</u>	<u>9,279,750.23</u>
Total expenditures and transfers	<u>76,822,525.93</u>	<u>15,538,726.26</u>	<u>92,361,252.19</u>
<u>OTHER TRANSFERS AND ADDITION (DEDUCTIONS)</u>			
Excess of restricted receipts over transfers to revenues	-	58,411.22	58,411.22
Indirect costs recovered	-	(648,292.79)	(648,292.79)
Expired grants	-	(11,838.75)	(11,838.75)
Reclassification to other funds	-	(15,901.73)	(15,901.73)
Transfers from endowment and similar funds	-	133,627.00	133,627.00
Other deduction	-	(113.17)	(113.17)
Net increases in fund balances	<u>\$ 175,011.10</u>	<u>\$ 224,921.61</u>	<u>\$ 399,932.71</u>

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
TENNESSEE TECHNOLOGICAL UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 2000

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
<u>REVENUES</u>			
Tuition and fees	\$ 20,660,520.02	\$ 47,012.95	\$ 20,707,532.97
State appropriations	38,938,000.00	3,526,000.00	42,464,000.00
Federal grants and contracts	321,445.04	5,890,431.46	6,211,876.50
State grants and contracts	159,901.24	2,130,313.86	2,290,215.10
Local grants and contracts	-	1,206.94	1,206.94
Private gifts, grants, and contracts	184,787.78	2,731,093.23	2,915,881.01
Investment income	1,169,207.19	-	1,169,207.19
Endowment income	-	233,106.90	233,106.90
Sales and services of educational activities	1,874,874.30	-	1,874,874.30
Sales and services of auxiliary enterprises	8,962,249.24	-	8,962,249.24
Other sources	457,979.57	-	457,979.57
Total current revenues	<u>72,728,964.38</u>	<u>14,559,165.34</u>	<u>87,288,129.72</u>
<u>EXPENDITURES AND TRANSFERS</u>			
Educational and general:			
Expenditures:			
Instruction	33,038,440.98	1,187,806.54	34,226,247.52
Research	726,356.38	7,020,112.43	7,746,468.81
Public service	1,141,694.99	1,247,481.93	2,389,176.92
Academic support	6,038,835.59	171,416.95	6,210,252.54
Student services	7,815,269.72	505,564.69	8,320,834.41
Institutional support	6,617,160.27	143,260.16	6,760,420.43
Operation and maintenance of plant	6,587,839.55	37,819.53	6,625,659.08
Scholarships and fellowships	1,364,646.50	4,057,173.25	5,421,819.75
Total educational and general expenditures	<u>63,330,243.98</u>	<u>14,370,635.48</u>	<u>77,700,879.46</u>
Mandatory transfers for:			
Loan fund matching grant	32,798.00	-	32,798.00
Principal and interest	328,903.98	-	328,903.98
Nonmandatory transfers for:			
Endowment and similar funds	(283,314.00)	-	(283,314.00)
Unexpended plant	309,940.00	-	309,940.00
Renewals and replacements	(718,772.70)	-	(718,772.70)
Retirement of indebtedness	156,870.35	-	156,870.35
Total educational and general	<u>63,156,669.61</u>	<u>14,370,635.48</u>	<u>77,527,305.09</u>
Auxiliary enterprises:			
Expenditures	6,663,785.91	302.74	6,664,088.65
Mandatory transfer for:			
Principal and interest	636,969.55	-	636,969.55
Nonmandatory transfer for:			
Renewals and replacements	1,600,332.55	-	1,600,332.55
Total auxiliary enterprises	<u>8,901,088.01</u>	<u>302.74</u>	<u>8,901,390.75</u>
Total expenditures and transfers	<u>72,057,757.62</u>	<u>14,370,938.22</u>	<u>86,428,695.84</u>
<u>OTHER TRANSFERS AND ADDITION (DEDUCTIONS)</u>			
Excess of restricted receipts over transfers to revenues	-	105,112.94	105,112.94
Indirect costs recovered	-	(631,725.51)	(631,725.51)
Refunded to grantors	-	(920.73)	(920.73)
Expired grants	-	(938.45)	(938.45)
Reclassification to other funds	-	(24,466.35)	(24,466.35)
Transfers from endowment and similar funds	-	132,561.07	132,561.07
Transfers to endowment and similar funds	-	(13,215.80)	(13,215.80)
Other deduction	-	(33.28)	(33.28)
Net increase (decrease) in fund balances	<u>\$ 671,206.76</u>	<u>\$ (245,398.99)</u>	<u>\$ 425,807.77</u>

The notes to the financial statements are an integral part of this statement.

**Tennessee Board of Regents
Tennessee Technological University
Notes to the Financial Statements
June 30, 2001, and June 30, 2000**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The university is a part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

Blended Component Unit - The Tennessee Technological University Dormitory Corporation (TTUDC) was chartered as a general welfare, nonprofit corporation whose purpose is to borrow the necessary funds to finance the construction of, and to maintain and operate, student apartment and dormitory housing for the university. Although it is legally separate from the university, in the university's financial statements the corporation is reported as if it were part of the university. Because of the nature and significance of its relationship with the university, the exclusion of the corporation from the university's reporting entity would render the university's financial statements incomplete. The assets and liabilities of the corporation are included in the plant funds on the university's balance sheet. Revenues and expenditures of the corporation are also included in the university's financial statements. The excess of expenditures over revenues is recorded as an increase to accounts receivable by the university, and the excess of revenues over expenditures is recorded as a decrease to accounts receivable. Upon dissolution of the corporation, all the corporation's assets remaining after payment of all its liabilities are to be transferred to the university without further consideration. A separate audit report is issued on the corporation's operations and can be obtained at the following address: Tennessee Technological University, Box 5037, Cookeville, Tennessee 38505.

Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The university uses the AICPA College Guide model for accounting and financial reporting.

Basis of Accounting

The financial statements have been prepared on the accrual basis, except that depreciation on plant assets is not recorded and revenues and expenditures of an academic term

**Tennessee Board of Regents
Tennessee Technological University
Notes to the Financial Statements (Cont.)
June 30, 2001, and June 30, 2000**

encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominantly conducted. All restricted resources are recorded as additions to the fund balances of the appropriate fund groups. Restricted current resources are then recorded as revenues during the period in which they are expended or all eligibility requirements have been met. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the funds are accounted for as (1) expenditures, for normal replacement of movable equipment and library holdings; (2) mandatory transfers, for required debt amortization and interest and equipment renewal and replacement; and (3) nonmandatory transfers, for all other cases.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of the resources available, the university maintains accounts in accordance with the principles of fund accounting. With this procedure, resources for various purposes are classified for accounting and reporting purposes into funds for specified activities or objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds with similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds which are allocated to specific purposes by the governing board. Externally restricted funds may be used only in accordance with the purposes established by the source of such funds and contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds. This income is accounted for in the fund to which it is restricted or, if unrestricted, as revenues

**Tennessee Board of Regents
Tennessee Technological University
Notes to the Financial Statements (Cont.)
June 30, 2001, and June 30, 2000**

in unrestricted current funds. All other unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues when expended or all eligibility requirements have been met and expenditures when expended for current operating purposes.

Current Funds

Unrestricted current funds consist of those funds over which the university retains full control for use in achieving its authorized institutional purposes. Auxiliary enterprises activities are included in unrestricted current funds and include housing, food services, vending, the post office, the fitness center, university stores, and the Craft Center Gallery. Restricted current funds are externally restricted and may be used only in accordance with the purposes established by their source.

Loan Funds

Loan funds consist of resources made available for student loans.

Endowment and Similar Funds

Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and only the income be used. Term endowment funds are similar to endowment funds, except that after a stated period of time or a particular event, all or part of the principal may be expended. Although quasi-endowment funds have been established by the governing board for the same purposes as endowment funds, any portion of quasi-endowment funds may be expended.

Plant Funds

The plant funds group consists of (1) funds set aside for the acquisition of physical properties for institutional purposes; (2) funds set aside for the renewal and replacement of institutional properties; (3) funds set aside for debt service charges and for the retirement of the indebtedness on institutional properties; and (4) funds expended for, and thus invested in, institutional properties.

Agency Funds

In handling these funds, the university acts solely as an agent; consequently, transactions of these funds do not affect the university's operating statements.

**Tennessee Board of Regents
Tennessee Technological University
Notes to the Financial Statements (Cont.)
June 30, 2001, and June 30, 2000**

LGIP Deposit – Capital Projects

Payments related to the university's capital projects are made by the State of Tennessee's Department of Finance and Administration. The university's estimated local share of the cost of each project is held in a separate Local Government Investment Pool (LGIP) account. As expenditures are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the university for any other purpose until the project is completed and any remaining funds are released by the Tennessee Board of Regents.

Inventories

Inventories are valued at the lower of cost or market. All items are maintained on an average cost or first-in, first-out basis.

Compensated Absences

The university's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are recorded in the current funds. Since the liability is expected to be funded primarily from future unrestricted and restricted revenue sources, a related allocation has been made to the current fund balances so that these fund balances reflect current available funds.

Allocation for Working Capital

The unrestricted fund balance is allocated for the amount of working capital. "Working capital" is defined as the total of all petty cash, accounts receivable, inventories, and prepaid expenses in the unrestricted fund at the balance sheet date, except for student receivables credited to deferred revenue, accrued interest, and amounts due on federal letters of credit, less the accrued benefits on accrued faculty salaries.

Plant Assets

The physical plant and equipment are stated at cost at date of purchase or at fair value at date of donation. Library books are valued at \$48 per volume, and other library holdings are valued at various standardized values, which approximate current costs. Livestock is valued at estimated market value. Depreciation on the physical plant and equipment is not recorded.

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In the case of service departments, the university charges renewal and replacement of plant assets to current expenditures; these charges are also reported as additions to funds for renewals and replacements.

Interest Costs

The university has adopted a policy of capitalizing all construction-related interest costs for capital projects funded by Tennessee State School Bond Authority indebtedness. All other interest costs are expensed.

Foundations

The university is the sole beneficiary of the following private, nonprofit foundations: Tennessee Tech Athletic Foundation, Inc.; Tennessee Technological University College of Business Administration Foundation; Tennessee Technological University Foundation; Tennessee Tech Engineering Development Foundation, Inc.; Tennessee Tech Education Foundation; Tennessee Technological University Friends of the Library Foundation; and Tennessee Technological University School of Nursing Foundation. These foundations are controlled by boards independent of the university. The financial records, investments, and other financial transactions are handled by the university, and the assets and liabilities of these foundations are included in the agency funds on the university's balance sheet.

Federal Direct Loan Program

The university participates in the Federal Direct Loan Program. Activity of this program is not included in the financial statements of the university. The university acts as an agent for the U.S. government in disbursing funds to students.

NOTE 2. CASH AND CASH EQUIVALENTS

In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 2001, cash and cash equivalents consisted of \$2,018,256.08 in bank accounts, \$30,613.00 of petty cash on hand, \$13,964,476.39 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$4,807,554.72 in money market accounts. At June 30, 2000, cash and cash equivalents consisted of \$957,527.13 in bank accounts, \$30,533.00 of petty cash on

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hand, \$11,148,026.63 in the State of Tennessee Local Government Investment Pool, and \$2,249,635.10 in money market accounts.

NOTE 3. DEPOSITS

The university's deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 115%, 100%, or 90% of the uninsured deposits at financial institutions participating in the collateral pool and 105% of the uninsured deposits at all other financial institutions. The pledge level for financial institutions participating in the collateral pool is based on financial criteria set by the Collateral Pool Board with the financially strongest institutions being eligible for the lowest pledge level.

The university also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report*.

NOTE 4. INVESTMENTS

The university is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be

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limited to funds from private gifts or other sources external to the university and that endowment investments be prudently diversified. The foundations are authorized to invest funds in accordance with their boards of directors' policies. All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase.

The university's/foundations' investments are categorized below to indicate the level of risk assumed by the university/foundations at year-end. Category 1 consists of insured or registered investments or investments for which the securities are held by the university/foundations or their agents in the university's/foundations' name.

<u>June 30, 2001</u>	<u>Fair Value</u>
Category 1:	
U.S. government securities	\$ 8,029,171.66
Collateralized mortgage obligations	613,870.89
Corporate bonds	1,227,551.25
Corporate stocks	8,920,935.55
Investments not susceptible to credit risk categorization:	
Mutual funds - university	27,403.43
Mutual funds - TTUDC	<u>532,687.84</u>
Total investments on the balance sheet	<u><u>\$19,351,620.62</u></u>

<u>June 30, 2000</u>	<u>Fair Value</u>
Category 1:	
U.S. government securities	\$10,221,920.62
Collateralized mortgage obligations	688,661.66
Corporate bonds	1,804,139.00
Corporate stocks	10,081,514.03
Investments not susceptible to credit risk categorization:	
Mutual funds - university	31,951.08
Mutual funds - TTUDC	<u>524,075.24</u>
Total investments on the balance sheet	<u><u>\$23,352,261.63</u></u>

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Investments of endowment and similar funds are composed of the following:

	<u>Carrying Value</u>	
	<u>FY 2001</u>	<u>FY 2000</u>
U.S. government securities	\$ 86,070.11	\$ 125,492.17
Collateralized mortgage obligations	613,870.89	688,661.66
Local Government Investment Pool	<u>689,244.28</u>	<u>751,421.67</u>
	<u>\$1,389,185.28</u>	<u>\$1,565,575.50</u>

Assets of endowment funds are pooled on a fair value basis, with each individual fund subscribing to or disposing of units on the basis of the fair value per unit at the beginning of the calendar quarter within which the transaction takes place. Of the total units at June 30, 2001, each having a fair value of \$0.8588793, 731,545.27 units were owned by endowment funds, 4,843.37 units were owned by term endowment funds, and 881,050.78 units were owned by quasi-endowment funds. Of the total units at June 30, 2000, each having a fair value of \$0.8526237, 796,533.47 units were owned by endowment funds, 30,615.77 units were owned by term endowment funds, and 1,009,036.46 units were owned by quasi-endowment funds.

The following tabulations summarize changes in relationships between cost and fair values of the pooled assets:

<u>FY 2001</u>	<u>Pooled Assets</u>		<u>Net Gains</u>	<u>Fair</u>
	<u>Fair</u>	<u>Cost</u>	<u>(Losses)</u>	<u>Value</u>
End of year	\$1,389,185.28	\$1,383,651.98	\$ 5,533.30	\$0.8588793
Beginning of year	\$1,565,575.50	\$1,597,834.41	<u>(32,258.91)</u>	<u>0.8526237</u>
Unrealized net gains			37,792.21	
Realized net gains			<u>-</u>	
Total net gains			<u>\$37,792.21</u>	<u>\$0.0062556</u>

The average annual earnings per unit, exclusive of net gains, were \$0.057305 for the year.

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<u>FY 2000</u>	<u>Pooled Assets</u>		<u>Net Gains</u>	<u>Fair</u>
	<u>Fair</u>	<u>Cost</u>	<u>(Losses)</u>	<u>Value</u>
				<u>Per Unit</u>
End of year	\$1,565,575.50	\$1,597,834.41	\$(32,258.91)	\$0.8526237
Beginning of year	\$1,992,799.73	\$2,011,457.69	<u>(18,657.96)</u>	<u>0.9998709</u>
Unrealized net losses			(13,600.95)	
Realized net gains			<u>-</u>	
Total net losses			<u>\$(13,600.95)</u>	<u>\$(0.1472472)</u>

The average annual earnings per unit, exclusive of net gains, were \$0.65076 for the year.

NOTE 5. PLANT FUND ENCUMBRANCES

Plant fund encumbrances outstanding at June 30, 2001, amounted to \$214,972.76 for renewals and replacements. Plant fund encumbrances outstanding at June 30, 2000, amounted to \$40,461.80 for unexpended plant and \$137,397.60 for renewals and replacements.

NOTE 6. BONDS PAYABLE AND TSSBA INDEBTEDNESS

Bond issues, with interest rates ranging from 4.5% to 5.0% for revenue bonds (\$872,000.00) and 3.0% to 5.25% for Tennessee State School Bond Authority bonds (\$2,841,863.20), are due serially to 2011 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations. The bonded indebtedness with the Tennessee State School Bond Authority reported on the balance sheet is shown net of assets held by the authority in the debt service reserve. The reserve amount was \$242,948.63 at June 30, 2001, and \$242,958.63 at June 30, 2000.

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The university's debt service requirements to maturity for all bonds payable at June 30, 2001, are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 831,903.53	\$191,059.24	\$1,022,962.77
2003	619,273.03	143,596.72	762,869.75
2004	596,140.39	117,133.89	713,274.28
2005	420,246.60	87,654.55	507,901.15
2006	234,011.80	65,950.19	299,961.99
2007-2011	<u>1,012,287.85</u>	<u>166,798.27</u>	<u>1,179,086.12</u>
	<u>\$3,713,863.20</u>	<u>\$772,192.86</u>	<u>\$4,486,056.06</u>

NOTE 7. PENSION PLANS

A. Defined Benefit Plan

Tennessee Consolidated Retirement System

Plan Description - The university contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code*

Annotated, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202.

Funding Policy - Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 6.19% of annual

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covered payroll. Contribution requirements for the university are established and may be amended by the TCRS' Board of Trustees. The university's contributions to TCRS for the years ended June 30, 2001, 2000, and 1999, were \$1,319,702.32, \$1,162,329.90, and \$1,237,188.22. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

Plan Description - The university contributes to three defined contribution plans: Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the university to the plans was \$2,075,218.98 for the year ended June 30, 2001, and \$1,929,607.53 for the year ended June 30, 2000. Contributions met the requirements for each year.

NOTE 8. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible university retirees. This benefit is provided and administered by the State of Tennessee. The university assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*.

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NOTE 9. CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 2000, the threshold for capitalizing equipment increased from \$1,000 to \$5,000. As a result of the change, equipment decreased by \$15,545,446.86.

NOTE 10. INSURANCE-RELATED ACTIVITIES

The state purchases commercial insurance for real property losses above \$5 million per year and surety bond coverage on the state's officials and employees. During the year ended June 30, 1999, the state incurred losses in Clarksville and Jackson due to damage from tornadoes. The final settlement of \$8.96 million for the tornado damage in Clarksville was made during the year ended June 30, 2001. In the years ended June 30, 2000, and June 30, 1998, the state did not have any claims filed with the commercial insurer. A designation for casualty losses in the amount of \$8.731 million at June 30, 2001, and \$7.256 million at June 30, 2000, was established in the state's general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 2001, the scheduled coverage for the university was \$206,655,000 for buildings and \$97,050,700 for contents. At June 30, 2000, the scheduled coverage was \$210,695,100 for buildings and \$96,638,300 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The university participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the university participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the university for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under

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workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The university participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 11. FEDERAL STUDENT FINANCIAL ASSISTANCE

The restricted expenditure function scholarships and fellowships includes \$4,249,508.75 of federal financial assistance for students. These programs include Federal Pell Grants and Federal Supplemental Educational Opportunity Grants.

NOTE 12. COMMITMENTS AND CONTINGENCIES

Sick Leave - The university records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$19,899,345.69 at June 30, 2001, and \$18,816,522.15 at June 30, 2000.

Operating Leases - The university has entered into various operating leases for equipment. Such leases will probably continue to be required. Expenditures under operating leases were \$280,195.25 for the year ended June 30, 2001, and \$270,049.48 for the year ended June 30, 2000. All operating leases are cancelable at the lessee's option.

Litigation - The university is involved in several lawsuits, none of which are expected to have a material effect on the accompanying financial statements.

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NOTE 13. AFFILIATED ENTITY NOT INCLUDED

The university is the sole beneficiary of the Agricultural Foundation for Tennessee Tech, Inc., This private, nonprofit foundation is controlled by a board independent of the university. The financial records, investments, and other financial transactions are not handled by the university, and these amounts are not included in the university's financial statements. As reported in the foundation's most recently audited financial report, at June 30, 2000, the foundation's assets totaled \$619,486.40, and the fund balance amounted to \$619,486.40.

NOTE 14. CHAIRS OF EXCELLENCE

The university had \$4,981,719.05 on deposit at June 30, 2001, and \$5,292,335.35 on deposit at June 30, 2000, with the State Treasurer for the university's Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

NOTE 15. PRIOR-YEAR RESTATEMENT

During the year ended June 30, 2001, the university implemented GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*. As a result, prior-year amounts were restated as noted below:

Exhibit E		
Restricted	Tuition and fees	\$ (9,722.07)
Restricted	State appropriations	\$ 76,130.04
Restricted	Federal grants and contracts	\$ 282,360.97
Restricted	State grants and contracts	\$ 120,414.14
Restricted	Private gifts, grants, and contracts	\$ (287,026.92)
Restricted	Endowment income	\$ 6,373.70
Restricted	Sales and services of auxiliary enterprises	\$ (302.74)
Restricted	Excess of restricted receipts over transfers to revenues	\$ (188,227.12)

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NOTE 16. NEW ACCOUNTING PRONOUNCEMENTS

In November 1999, the Governmental Accounting Standards Board (GASB) issued Statement 35, *Basic Financial Statements—and Management’s Discussion and Analysis—for Public Colleges and Universities*, an amendment of GASB Statement No. 34. As originally issued, Statement 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for States and Local Governments* was not applicable to public institutions. Rather than issuing separate standards, GASB decided to provide financial reporting guidance for public institutions by amending Statement 34 to extend its applicability to them. Statement 35 supersedes GASB Statement 15, which currently allows public institutions to choose one of two models when preparing their financial statements—the AICPA College Guide model or the governmental model. As component units of a state government, most public institutions will implement GASB Statement 35 at the same time as the state government implements GASB Statement 34.

Under the provisions of the GASB standards, the university is permitted to report as a special purpose government engaged only in business-type activities (BTA). BTA reporting will require the university to present only the basic financial statements and required supplementary information (RSI) for an enterprise fund that includes management’s discussion and analysis, a statement of net assets or a balance sheet, a statement of revenues, expenses, and changes in net assets, a statement of cash flows, notes to the financial statements, and other applicable RSI. The required basic financial statements described above are prepared using the economic resources measurement focus and the accrual basis of accounting. Fund financial statements are not required for BTA reporting.

Statement 34 will also require the university to retroactively and prospectively report all capital assets, net of accumulated depreciation, including infrastructure assets (long-lived capital assets such as roads and bridges) in the statement of net assets and report depreciation expense in the statement of revenues, expenses, and changes in net assets. Retroactive reporting of capital assets will require a prior period adjustment to net assets. Management has not yet determined the effect of the implementation of this statement on the university’s financial statements.